

Plantation

Outlook Turns Neutral As B50 Implementation Is Delayed

Highlights

- We downgrade our sector call to MARKET WEIGHT (from OVERWEIGHT) following Indonesia's call to delay the B50 biodiesel mandate's implementation, which was originally planned for 2H26.
- In the absence of the B50 programme's demand uplift, our 2026 CPO price assumption is subsequently revised down to RM4,250/tonne from RM4,400/tonne, albeit still maintaining 2027's assumption of RM4,300/tonne.
- Hap Seng Plantations (HAPL) and Kuala Lumpur Kepong (KLK) are now our remaining sector BUY picks.

Analysis

- **Indonesia to maintain B40 biodiesel mandate for 2026.** Yesterday, Indonesia's officials announced their decision to place the rollout of the B50 biodiesel mandate – previously planned for 2H26 – on hold, citing funding constraints amid widening palm oil-gas oil (POGO) spreads alongside technical concerns. POGO spreads have widened from US\$300/tonne in 4Q25 to as high as US\$370/tonne this year as fossil fuel prices declined. In addition, officials have stated that the implementation of the B50 programme in 2027 would also remain contingent on POGO spread levels next year.
- **2026 CPO prices revised down to RM4,250/tonne from RM4,400/tonne.** The latest development is deemed negative to CPO's price outlook, as we previously anticipated a partial implementation of the B50 programme to elevate biodiesel demand and fuel higher palm oil prices, especially during 2H26. As a result, we have downgraded our 2026 CPO assumption from RM4,400/tonne to RM4,250/tonne, marginally lower yoy than average spot prices of RM4,300/tonne in 2025. Our new forecast implies CPO prices will trade at a modest range of RM4,200-4,300/tonne in 2H26, vs RM4,400-4,500/tonne previously.
- **Another round of levy hikes for Indonesia's palm exports.** Due to increased funding requirements posed by the widening POGO spreads, Indonesia's government has also announced another round of export levy hikes, despite the B50 mandate's delay, in order to sustain the existing B40 mandate. Beginning Mar 26, CPO's export levy rates are set to rise from 10.0% to 12.5%, with processed palm products' levy rates similarly rising by 2.5ppt as well. Overall, the levy hikes are deemed a slight positive for Malaysia's palm oil export competitiveness, while implications to domestic downstream players are relatively neutral.

MARKET WEIGHT (Downgraded)

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Segmental Rating

Segment	Rating
Malaysia	MARKET WEIGHT (Downgraded)

Source: UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Hap Seng Plantations	HAPL MK	BUY	2.31	2.45
Kuala Lumpur Kepong	SDG MK	BUY	20.58	22.25

Source: Bloomberg, UOB Kay Hian

CPO Price Assumptions (RM/Tonne)

	CPO Price (RM/tonne)
2020	2,686
2021	4,408
2022	5,088
2023	3,810
2024	4,180
2025	4,306
Our forecast:	
2026F	4,250
CPO Price:	
MPOB @ 13 JAN 25	4,022
BMD 3 rd Month Contract	4,043

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec*	Price 14 Jan 25 (RM)	Target Price (RM)	Upside To TP (%)	Last Year End	PE 2024A (x)	PE 2025E (x)	PE 2026E (x)	Yield 2026E (%)	ROE 2026E (%)	Market Cap. (RMm)	Price/NAV ps (x)
Hap Seng Plantations	HAPL MK	BUY	2.31	2.45	6.1	Dec-25	9.1	11.7	8.5	4.3	10.1	1847.3	0.9
SD Guthrie	SDG MK	HOLD	5.70	5.90	3.5	Dec-25	25.3	20.6	20.8	3.1	10.6	39419.6	1.9
Genting Plantations	GENP MK	HOLD	5.14	4.95	-3.7	Dec-25	14.3	12.9	12.4	3.8	6.1	4611.4	0.9
IOI Corporation	IOI MK	HOLD	4.07	4.30	5.7	Jun-26	19.4	17.4	15.1	3.0	12.7	25580.8	2.1
Kuala Lumpur Kepong	KLK MK	BUY	20.58	22.25	8.1	Sep-25	24.7	19.3	15.7	2.6	5.8	22919.1	1.6
Kim Loong	KIML MK	HOLD	2.41	2.25	-6.6	Jan-26	14.6	14.4	14.8	6.8	18.5	2370.2	2.5
Sarawak Oil Palms	SOP MK	HOLD	3.90	3.15	-19.2	Dec-25	7.8	8.1	8.2	2.3	12.2	3668.9	0.9

Source: Bloomberg, UOB Kay Hian

- **Earnings estimates.** In tandem with our CPO price downgrade, our 2026 earnings estimates for companies under our coverage have been lowered by 3-9%. After the revision, we nonetheless continue to expect sector earnings to rise by about 8% yoy, underpinned by IOI and KLK which are expected to see a recovery in downstream earnings contribution. On the other hand, our CPO price assumption for 2027 remains unchanged at RM4,300/tonne.
- **Price upside capped, but downside should be supported.** Although news of B50's delay has dampened CPO's upside potential this year, we nonetheless view prices as having limited downside at current levels (~RM4,000/tonne) with support still provided by a muted supply outlook at both Malaysia and Indonesia. After a strong showing in 2025, production in Malaysia may be at risk of moderating on the back of a tree resting cycle; as for Indonesia, the recent monthly production trend as well as ongoing landbank reclamation issues continue to pose downside risks to 2026's production outlook. In the immediate term, we still expect CPO prices to pick up sequentially, supported by the start of the seasonal production trough on top of elevated festive demand in 1Q26 which should see inventory levels correct at an accelerated pace.

Earnings, Rating And Target Price Revision

Company	----- EPS Changes -----		----- TP Changes (RM) -----		----- Rating Changes -----		Upside (%)
	FY26F	FY27F	Previous	New	Previous	New	
Hap Seng Plantations	-8%	-	2.65	2.45	BUY	BUY	6.1
Genting Plantations	-8%	-	5.40	4.95	HOLD	HOLD	(3.7)
IOI Corporation	-3%	-3%	4.45	4.30	BUY	HOLD	(5.7)
Kuala Lumpur	-5%	-	23.50	22.25	BUY	BUY	8.1
Kepong							
SD Guthrie	-9%	-	6.50	5.90	BUY	HOLD	3.5

Source: UOB Kay Hian

Valuation/Recommendation

- **Downgrade to MARKET WEIGHT from OVERWEIGHT.** We downgrade our sector call after adjusting our target prices lower, with share prices of stocks under our coverage having also appreciated by 6% since Dec 25. Following our downgrade of SDG and IOI to HOLD from BUY, only KLK and HAPL remained as BUY picks within our universe. We continue to like HAPL for its inexpensive valuations and still-attractive dividend yields of 5-6%, while KLK is regarded as a laggard pick with its downstream business expected to record a progressive earnings recovery.

Sector Catalyst/Risk

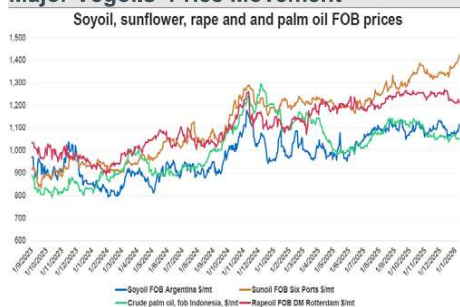
- Weaker-than-expected industry output driving tighter inventories and higher CPO prices.
- Acceleration/resumption of regional biofuel policy expansion plans driving incremental consumption demand.
- Meaningful recovery in downstream business conditions for vertically-integrated planters.

MPOB 2026 Key Forecasts

Indicators	2025	2026F
CPO Production (mt)	20.3	19.5-19.8
Palm Exports (mt)	15.3	15.8-16.0
Closing Stock (mt)	3.05	2.0
CPO Price (RM/t)	4,292	4,000-4,300

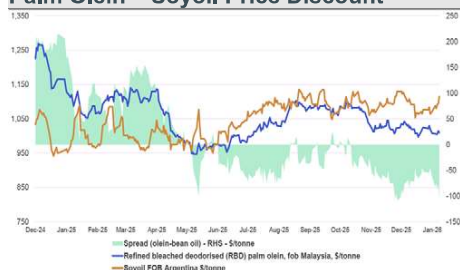
Source: MPOB

Major Vegoils' Price Movement



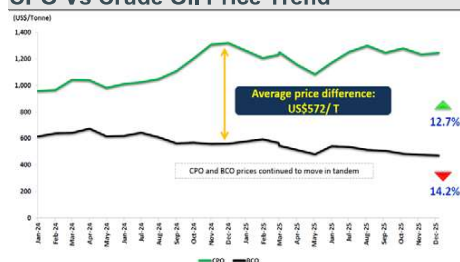
Source: FastMarkets, MPOB

Palm Olein – Soyoil Price Discount



Source: FastMarkets, MPOB

CPO Vs Crude Oil Price Trend



Source: MPOB

USDA Vegoil Production Forecast

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Production						
Oil, Coconut	3.73	3.72	3.88	3.67	3.71	3.71
Oil, Cottonseed	4.53	4.56	4.74	4.68	4.68	4.64
Oil, Olive	3.30	2.53	2.44	3.40	3.02	3.28
Oil, Palm	73.28	76.75	76.89	78.41	80.02	80.32
Oil, Palm Kernel	8.24	8.75	8.60	8.94	9.31	9.35
Oil, Peanut	6.41	6.19	6.00	6.30	6.32	6.32
Oil, Rapeseed	29.15	33.25	34.33	34.17	35.65	35.65
Oil, Soybean	60.00	60.88	63.99	69.99	70.61	71.13
Oil, Sunflowerseed	19.68	21.71	22.12	20.17	19.99	20.02
Total	208.31	218.14	222.19	228.72	233.29	234.32

Source: MPOB, UOB Kay Hian

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